

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)**

**FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Parish Hospital Service District
For the Parish of Orleans – District A
(A Component Unit of the City of New Orleans)
New Orleans, Louisiana

We have audited the accompanying financial statements of the **Parish Hospital Service District for the Parish of Orleans - District A (the District)**, a component unit of the City of New Orleans, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise **the District's** basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors
Parish Hospital Service District
For the Parish of Orleans – District A
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New Orleans, Louisiana
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Auditors' Responsibility, Continued

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **the District**, as of December 31, 2013, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors
Parish Hospital Service District
For the Parish of Orleans – District A
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise **the District's** basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

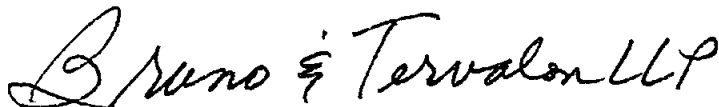
To the Board of Directors
Parish Hospital Service District
For the Parish of Orleans – District A
(A Component Unit of the City of New Orleans)
New Orleans, Louisiana
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Other Information, Continued

from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2014, on our consideration of **the District's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **the District's** internal control over financial reporting and compliance.



BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

June 9, 2014

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

The **Parish Hospital Service District for the Parish of Orleans – District A (the District)** is a component unit of the City of New Orleans. The **District’s** management’s discussion and analysis is presented to offer readers of the accompanying financial statements a narrative overview and analysis of the financial activities of **the District** for the year ended December 31, 2013. This management’s discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant components and changes in **the District’s** financial position. Readers are encouraged to consider the information presented here in conjunction with the financial statements as a whole.

Overview of the Financial Statements

Basic financial statements - The basic financial statements are designed to provide readers with a broad overview of **the District’s** finances in a manner similar to a private-sector business.

The statement of net position presents information on all of **the District’s** assets and liabilities, with differences between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of **the District** is improving or deteriorating. Net position increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position, which indicates an improved financial position.

The statement of revenues, expenses and changes in net position, presents information showing how **the District’s** net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus revenues and expenses are reported in this statement for items that will only result in cash flows in future periods (e.g., earned but unused vacation leave).

Notes to financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Financial Analysis of the District as a whole:

Summary Statement of Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>
ASSETS			
Current assets	\$ 7,506,662	\$ 10,584,292	\$ (3,077,630)
Noncurrent assets	<u>90,170,455</u>	<u>32,855,345</u>	<u>57,315,110</u>
Total assets	<u>\$ 97,677,117</u>	<u>\$ 43,439,637</u>	<u>\$ 54,237,480</u>
LIABILITIES			
Current liabilities	14,817,683	11,531,940	3,285,743
Noncurrent liabilities	<u>58,628,102</u>	<u>14,820,385</u>	<u>43,807,717</u>
Total liabilities	<u>73,445,785</u>	<u>26,352,325</u>	<u>47,093,460</u>
NET POSITION (DEFICIT)			
Net invested in capital assets	31,571,991	18,046,934	13,525,057
Unrestricted	<u>(7,340,659)</u>	<u>(959,622)</u>	<u>(6,381,037)</u>
Total net position	<u>\$ 24,231,332</u>	<u>\$ 17,087,312</u>	<u>\$ 7,144,020</u>

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Results of Operations

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
OPERATING REVENUES			
Operating revenues	\$ 5,788,315	\$ 3,303,030	\$ 2,485,285
Total operating revenues	<u>5,788,315</u>	<u>3,303,030</u>	<u>2,485,285</u>
OPERATING EXPENSES			
Salaries, wages, and benefits	1,293,224	894,796	398,428
Contractual medical services	1,329,894	983,796	346,098
Medical equipment and supplies	109,331	55,472	53,859
Occupancy	247,803	177,330	70,473
Utilities	47,962	17,744	30,218
Depreciation	58,137	36,655	21,482
Insurance	108,691	72,879	35,812
Professional services	1,969,491	891,016	1,078,475
Office supplies	38,378	25,281	13,097
Office expense	18,550	25,045	(6,495)
Marketing and outreach	31,117	42,957	(11,840)
Security	447,228	291,587	155,641
Repairs and maintenance	4,630	24,981	(20,351)
Employee training	37,271	-	37,271
Other	35,729	26,710	9,019
Total operating expenses	<u>5,777,436</u>	<u>3,566,249</u>	<u>2,211,187</u>
Operating gain (loss)	<u>10,879</u>	<u>(263,219)</u>	<u>274,098</u>
NONOPERATING INCOME			
Federal grant	2,000,000	-	2,000,000
Other	9,190	10,919	(1,729)
Passed-through grant expense	<u>(2,000,000)</u>	<u>-</u>	<u>(2,000,000)</u>
Total nonoperating income	<u>9,190</u>	<u>10,919</u>	<u>(1,729)</u>
Capital grant	<u>7,123,951</u>	<u>-</u>	<u>7,123,951</u>
Change in net position	7,144,020	(252,300)	7,396,320
Net position, beginning of year	<u>17,087,312</u>	<u>17,339,612</u>	<u>(252,300)</u>
Net position, end of year	\$ <u>24,231,332</u>	\$ <u>17,087,312</u>	\$ <u>7,144,020</u>

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Over the course of the 2013 fiscal year, **the District's** total net position increased by \$7,444,020. The primary operating activity for **the District** during 2013 was the operation of an Urgent Care Clinic (the Clinic) on the campus. The expenses associated with the operations of the Clinic were substantially reimbursed by a federal grant. The Clinic generated net patient billings totaling \$683,650 for the year ended December 31, 2013.

The District was successful in securing financing for the New Orleans East Hospital at the end of 2012. As a result of the loan closing, **the District** began to receive construction advances from the FHA 242 program to fund construction and related project capital costs for the hospital. **The District** must undergo a cost certification audit upon completion of the construction project. The FHA 242 program guidelines provide that upon successful completion of the cost certification audit the certified project costs and the related advances would be converted to a permanent mortgage payable by **the District**. Costs associated with the renovation are capitalized and recorded as construction in progress.

The City of New Orleans provided advances to support working capital needs of **the District** during the year. These advances were repaid as reimbursements were received from the federal funding agency for eligible expenses. As of December 31, 2013, the advance balance totaled \$864,440. Additional information can be found in Note 3 of this report.

Budgetary Highlights

The District adopts an annual operating budget and a long-term capital budget. The operating budget includes proposed expenses and the means of financing them. **The District's** operating budget remains in effect the entire year.

Capital Assets

The District's investment in capital assets amounts to \$31.6 million, net of accumulated depreciation and related debt. Capital assets include land, building, construction in progress, and furniture and equipment. The capital assets reflect an increase of \$57.3 million as compared to the prior year primarily due to construction in progress costs for the hospital. Corresponding increases in noncurrent liabilities reflect loan advances to fund the renovations. Additional information can be found in Note 4 of this report.

The District's long-term capital budget includes major building repairs and renovations, vehicle purchases and equipment replacements, and landscape improvements.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Current Assets and Liabilities

The District's current assets decreased to \$7.5 million primarily due to the decrease in restricted cash, which was used in 2013 according to the restricted cash purpose. Current liabilities increased in 2013 by \$3.3 million from 2012. This difference is due to the Retainage Payable balance due to The Lemoine Company, LLC. This account accumulates the ten percent of submitted contractor application for payment forms. Funds are released incrementally in accordance with contractual agreements.

Request for Information

This financial report is designed to provide a general overview of **the District's** finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to **the District's** chairman of the Board at 5640 Read Blvd., Suite 200, New Orleans, LA 70127.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

ASSETS

Current Assets:

Cash and cash equivalents	\$ 5,470,940
Receivables:	
Patients, net	312,448
Grant	1,479,218
Other	176,280
Prepaid expenses	67,776
Total current assets	<u>7,506,662</u>

Noncurrent Assets:

Furniture and equipment, net (NOTE 4)	288,760
Construction in progress (NOTE 4)	73,394,475
Land (NOTE 4)	3,400,000
Building (NOTE 4)	13,087,220
Total noncurrent assets	<u>90,170,455</u>

Total assets	<u>97,677,117</u>
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LIABILITIES

Current Liabilities:

Accounts payable	8,400,070
Accrued expenses	72,878
Retainage payable	3,469,534
Advances from governmental agency (NOTE 3)	864,440
Deferred revenue	2,010,761
Total current liabilities	<u>14,817,683</u>

Noncurrent Liabilities

Compensated absences	29,638
Mortgage loan advances (NOTE 7)	58,598,464
Total noncurrent liabilities	<u>58,628,102</u>

Total liabilities	<u>73,445,785</u>
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NET POSITION (DEFICIT)

Net invested in capital assets	31,571,991
Unrestricted	<u>(7,340,659)</u>
Total net position	<u>\$ 24,231,332</u>

The accompanying notes are an integral part of these financial statements.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)**
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013

OPERATING REVENUES

Net patient service revenue (NOTE 5)	\$ 683,650
Federal grant	5,104,665
Total operating revenues	<u>5,788,315</u>

OPERATING EXPENSES

Salaries, wages, and benefits	1,293,224
Contractual medical services	1,329,894
Medical equipment and supplies	109,331
Occupancy	247,803
Utilities	47,962
Depreciation	58,137
Insurance	108,691
Professional services	1,969,491
Office supplies	38,378
Office expense	18,550
Marketing and outreach	31,117
Security	447,228
Repairs and maintenance	4,630
Employee training	37,271
Other	35,729
Total operating expenses	<u>5,777,436</u>
Operating income	<u>10,879</u>

NONOPERATING INCOME (EXPENSE)

Federal grant	2,000,000
Other	9,190
Passed-through grant expense	(2,000,000)
Total net nonoperating expense	<u>9,190</u>

Capital grant	<u>7,123,951</u>
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Change in net position	7,144,020
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Net position, beginning of year	<u>17,087,312</u>
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Net position, end of year	<u>\$ 24,231,332</u>
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The accompanying notes are an integral part of these financial statements.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from patients and third party payors	\$ 496,486
Cash received from governmental agencies	417,270
Cash payments to suppliers of goods and services	(5,899,572)
Cash payments to employees for services	<u>(1,257,960)</u>
Net cash used in operating activities	<u>(6,243,776)</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Capital grant	7,123,951
Acquisition and construction of capital assets	(47,197,057)
Proceeds from mortgage loan advances	<u>43,790,053</u>
Net cash provided by capital and related financing activities	<u>3,716,947</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Other income	<u>9,190</u>
Net cash provided by investing activities	<u>9,190</u>
Decrease in cash and cash equivalents	(2,517,639)
Cash and cash equivalents, beginning of year	<u>7,988,579</u>
Cash and cash equivalents, end of year	<u>\$ 5,470,940</u>

The accompanying notes are an integral part of these financial statements.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans
STATEMENT OF CASH FLOWS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013**

**RECONCILIATION OF OPERATING INCOME TO
NET CASH USED IN OPERATING ACTIVITIES**

Operating income	\$ 10,879
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	58,137
Patients receivable recoveries	(557,070)
Changes in assets and liabilities:	
Decrease in patients receivable	526,534
Decrease in grant receivable	415,136
Increase in other receivables	(156,628)
Decrease in prepaid expenses	332,019
Decrease in accounts payable	(1,805,516)
Increase in accrued expenses	35,264
Decrease in deferred revenue	<u>(5,102,531)</u>
Net cash used in operating activities	<u>\$ (6,243,776)</u>

The accompanying notes are an integral part of these financial statements.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

The **Parish Hospital Service District for the Parish of Orleans - District A (the District)** is a Louisiana hospital service district established by Act 830 of the 2006 regular session of the Louisiana Legislature, as amended, which has been codified as Louisiana Revised Statutes 46:1094 through 1097. **The District** is divided into two areas as follows: (a) Orleans Parish east of the Industrial Canal and (b) all of Orleans Parish except the geographical areas of the Industrial Canal and the area of Orleans Parish bounded by Earhart Boulevard, Carrollton Avenue, Loyola Avenue and Iberville Street. **The District** was created to study the feasibility of building or acquiring and operating hospital facilities within **the District**. Currently, the mission of **the District** is to construct, equip and operate a state-of-the art hospital at the site of the former Pendleton Memorial Methodist Hospital in New Orleans, Louisiana and to provide emergency and other essential hospital services to the residents of New Orleans East. **The District** operates a 24-hour urgent care facility on the hospital campus. The urgent care facility will remain operational until the re-opening of the New Orleans East Hospital. **The District** expects to re-open the New Orleans East Hospital in July, 2014.

The two areas of **the District** are governed by separate governing Boards consisting of thirteen (13) commissioners each, who are qualified voters and residents of Orleans Parish and who reflect the ethnic, cultural and gender diversity of the Parish, seven (7) of whom are appointed by the Chief Executive Officer of the Parish.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements provide information about **the District's** activities. The financial statements for the business-type activities of **the District** are often referred to as enterprise fund financial statements.

"Measurement Focus" is an accounting term used to describe which transactions and types of balances are recorded within the various financial statements. The expression, "Basis of Accounting", refers to when transactions or events are recorded regardless of the measurement focus applied.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)

Because of the “businesslike” characteristics of our operations, the accompanying financial statements report using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives of the “economic resources” measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District utilizes the enterprise fund to record its financial operating activities. In governmental accounting, the enterprise fund is used to account for operations that are financed and operated in a manner similar to private business or where the Board of Directors has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the preparation of the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governmental entities also have the option of following subsequent private-sector guidance in accounting for and reporting on its operations, subject to the same limitation. **The District** has elected not to follow subsequent private-sector guidance.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Reporting Entity

The District is a component unit of the City of New Orleans, the reporting entity, as defined by the Governmental Accounting Standards Board pronouncement. The accompanying financial statements present information only on the fund maintained by **the District** and do not present information on the City of New Orleans, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows

For purposes of the statement of cash flows, **the District** considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Cash and cash equivalents presented in the statement of cash flows represent the total cash and cash equivalents reported as current assets.

Cash and Cash Equivalents

Cash includes amounts in noninterest and interest bearing demand deposits and time deposits. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, **the District** may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Patients Receivable

Patients receivable are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third party payors, less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. **The District** does not charge interest on patient receivables. Patients receivable are written-off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written-off are recorded as a reduction of bad debt expense when received. Receivables or payables related to estimated settlements on various risk contracts that **the District** participates in are reported as estimated third-party receivables or payables. As of December 31, 2013, the allowance for doubtful accounts approximated \$62,425.

Operating Income

The District distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result providing medical services to **District A of the Parish Hospital Service District**. Operating revenue consists of net patient services, gifts and grants related to the on-going operations of **the District**. Operating expenses consist of salaries and benefits, purchased services, supplies, depreciation and professional services. All revenue and expenses not meeting these criteria are considered nonoperating.

Net Position

Net position classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net position consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Net Position, Continued

Restricted - This component of net position consists of constraints placed on net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt" as described above.

Capital Assets

Capital assets are recorded at cost, if purchased, or at fair market value at the date of the gift, if donated. Additions, improvements and expenditures that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expenses as incurred. In situations involving the construction of certain assets financed with the proceeds from borrowings, the interest is capitalized. Depreciation of furniture and equipment is computed on the straight-line basis over the estimated useful lives of 3-5 years.

Income Taxes

The District is a political subdivision of the State of Louisiana and as such, no federal or state income taxes are assessed.

Board of Directors

Members of **the District's** Board of Directors receive no compensation or per diem.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Compensated Absences

Employees accumulate paid time off (PTO) at varying rates according to years of service. Employees become vested in accrued vacation upon completion of 90 days of employment. Upon termination, all unused PTO hours are paid to the employee at the employee's current rate of pay provided that the employee has successfully completed 90 days of employment.

NOTE 2 - CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are included in the Statement of Net Position as of December 31, 2013 consist of non-interest bearing demand deposit accounts.

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank.

The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. As of December 31, 2013, **the District** has \$5,911,260 in deposits (collected bank balances). These deposits are covered by \$250,000 in federal deposit insurance and \$6,787,399 in pledged securities.

Custodial credit risk is the risk that, in event of a failure of financial institution or counterparty, **the District** would not be able to recover its deposits, investments, or collateral securities that are in the possession of an outside party. **The District's** deposits are not subject to custodial credit risk.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 3 - ADVANCES FROM GOVERNMENTAL AGENCY:

The District received Disaster Community Development Block Grant (Disaster CDBG) funds during the 2013 fiscal year for the operation of the urgent care facility and administrative offices. As part of **the District's** CDBG funding agreement between the City of New Orleans (the City) and **the District**, the City provided Urban Development Action Grant (UDAG) funds to **the District** to advance personnel costs and certain other up-front costs related to **the District's** operations. The advanced UDAG funds were repaid as the Disaster CDBG grant reimbursements were received from the federal funding agency for eligible expenditures. The amount of advanced UDAG funds due to the City at December 31, 2013 was \$864,440.

NOTE 4 - CAPITAL ASSETS:

Capital assets are summarized as follows:

	<u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>2013</u>
Capital assets, not being depreciated:				
Land	\$ 3,400,000	\$ -0-	\$-0-	\$ 3,400,000
Building	13,087,220	-0-	-0-	13,087,220
Construction in progress	<u>16,126,266</u>	<u>57,268,209</u>	<u>-0-</u>	<u>73,394,475</u>
Total capital assets not being depreciated	<u>32,613,486</u>	<u>57,268,209</u>	<u>-0-</u>	<u>89,881,695</u>
Capital assets, being depreciated:				
Furniture and equipment	<u>296,212</u>	<u>105,038</u>	<u>-0-</u>	<u>401,250</u>
Total capital assets, being depreciated	<u>296,212</u>	<u>105,038</u>	<u>-0-</u>	<u>401,250</u>
Less: accumulated depreciation for:				
Furniture and equipment	<u>(54,353)</u>	<u>(58,137)</u>	<u>-0-</u>	<u>(112,490)</u>
Total accumulated depreciation	<u>(54,353)</u>	<u>(58,137)</u>	<u>-0-</u>	<u>(112,490)</u>
Total capital assets, being depreciated, net	<u>241,859</u>	<u>46,901</u>	<u>-0-</u>	<u>288,760</u>
Capital assets, net	<u>\$32,855,345</u>	<u>\$57,315,110</u>	<u>\$-0-</u>	<u>\$90,170,455</u>

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 5 - NET PATIENT SERVICE REVENUE:

Net patient service revenue for the year ended December 31, 2013 is earned under agreements with third-party payors and self paying patients. These agreements with third-party payors provide for payments to **the District** at amounts different from its established rates. These third-party payors include: the Medicare and Medicaid programs, health maintenance organizations, and various commercial insurance and preferred provider organizations.

The District provides care to patients who meet certain criteria under its charity care policy at amounts less than its established rates.

A summary of **the District's** net patient revenue for the year ended December 31, 2013 is as follows:

Gross patient service revenue	\$ 2,112,370
Less: estimated contractual adjustments	(1,985,790)
Less: patients receivable recoveries	<u>557,070</u>
Net patient revenue	\$ <u>683,650</u>

NOTE 6 - OPERATING LEASE:

The District has operating leases for its Urgent Care Clinic and office facilities, expiring in the 2014 fiscal year.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 7 - MORTGAGE LOAN ADVANCES:

On December 21, 2012, **the District** entered into a Federal Housing Administration (FHA) 242-insured mortgage loan not to exceed \$97,604,300, which is a significant source of funding for the construction, demolition and remediation costs; design, project management, legal and organizational fees; equipment and furnishings; and financing charges of the Methodist Hospital Acquisition and Development Project (the Project). The interest rate from the date of the mortgage loan is 3.82% per annum on the unpaid balance until paid. The principal and interest is payable in monthly installments as follows:

Interest alone on such amount of principal as may be advanced from the time to time, computed from the date of each such advance, shall be due and payable monthly on January 1, 2013, and on the first day of each month thereafter up to and including June 1, 2014. Commencing on July 1, 2014, installments of principal and interest shall be due and payable in the amount of \$505,540 each. Such payments to continue monthly thereafter on the first day of each succeeding month until the entire indebtedness has been paid in full. In any event, the balance of principal (if any) remaining unpaid, plus accrued interest shall be due and payable on June 1, 2039. The installments of interest and principal shall be applied first to interest at the rate of 3.82% per annum upon the principal sum or so much thereof as shall from time-to-time remain unpaid, and the balance thereof shall be applied on account of principal.

The note is secured by mortgage upon real estate and guaranteed by the U.S. Department of Housing and Urban Development (HUD). At December 31, 2013, **the District** was advanced \$58,598,464 on this mortgage loan (see NOTE 9).

The District must undergo a cost certification audit upon completion of the construction project. The FHA 242 program guidelines provide that upon successful completion of the cost certification audit the certified project costs and the related advances would be converted to a permanent mortgage payable by **the District**.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 8 - LONG-TERM OBLIGATIONS:

The following is a summary of the long-term obligation transactions for the year ended December 31, 2013:

	<u>Compensated Absences</u>	<u>Mortgage Loan Advances</u>	<u>Total</u>
Long-term obligations at January 1, 2012	\$11,974	\$14,808,411	\$14,820,385
Additions	17,664	43,790,053	43,807,717
Deductions	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Long-term obligations at December 31, 2013	<u>\$29,638</u>	<u>\$58,598,464</u>	<u>\$58,628,102</u>

All portions of the above long-term obligations are due in more than one (1) year.

NOTE 9 - PROTOCOL FOR QUARTERLY ADVANCES FOR BUDGETED EXPENSES:

As described in NOTE 7, **the District** has secured a FHA 242-insured mortgage loan to finance a portion of the costs of the Project. Additional funding from the FEMA Hazard Mitigation Grant Program (HMGP) and the Louisiana State Capital Outlay Program have been committed for project construction and equipment purchases. **The District** has prepared a detailed Global Budget of Expenses, which itemizes anticipated costs from 2012 through 2016 to complete the Eastern New Orleans Hospital (formerly Pendleton Methodist Memorial Hospital). The Global Budget has been reviewed for eligibility and approved by the State of Louisiana Office of Community Development (OCD), the City of New Orleans and HUD's Office of Hospital Facilities (OHF).

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

**NOTE 9 - PROTOCOL FOR QUARTERLY ADVANCES FOR BUDGETED EXPENSES
CONTINUED :**

An estimated \$24.45 million in Disaster CDBG funds was available on December 21, 2012, the mortgage loan closing date, to pay pre-opening and post-opening activation costs associated with the new hospital, the operations costs for the Urgent Care Center and the new hospital, and a portion of the construction costs for the Primary Care Center operated by the Daughters of Charity New Orleans East.

At the mortgage loan closing, **the District** received \$7,916,941 from its FHA 242 lender for construction - related products and services that had been paid with Disaster CDBG funds, which were also eligible for payment by the FHA 242 loan. These funds are considered a duplication of benefits (DOB) by the Disaster CDBG program. In accordance with the Protocol for Quarterly Advances of Budgeted Expenses, **the District** retained the first six (6) months of Grant Budgeted Expenses (\$2,700,220) in a segregated, non-interest bearing account and wired the remaining \$5,216,722 to the City for transfer to HUD via the State. The reimbursement to **the District** with loan proceeds for expenses previously paid with CDBG funds will not reduce the gross amount of CDBG funds available so long as eligible expenses exceed alternate sources of financial assistance.

As an alternative to the D-CDBG Request for Payment process, which **the District** considered burdensome in fulfilling its financial obligations under the FHA 242 loan, **the District** and the Mortgagee developed a protocol that guides the reimbursement of expenses of D-CDBG funds on a quarterly basis. The process was reviewed and approved by the City of New Orleans, OCD and HUD at the Deputy Secretary level before the loan closure. Funds will be advanced on a quarterly basis to cover budgeted expenses; and payments will be "trued-up" on a monthly and quarterly basis. **The District** also will submit procurement documentation for all new services and providers to the City for approval prior to incurring related costs.

NOTE 10 - RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; theft of; damage to and destruction of assets for which **the District** carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS:

The estimated fair value of all significant financial instruments amounts have been determined by **the District** using available market information and appropriate valuation methodologies. **The District** considers the carrying value amounts of cash and cash equivalents receivables, prepaid items and mortgage note and other payables to approximate market value.

NOTE 12 - CONTINGENCIES:

Federal and Private Grants

The District receives grants from Federal and private sources. **The District** is subject to discretionary audits by the funding sources. There have been no audits by funding sources during the 2013 audit period and management does not anticipate any adjustments as a result of future audits. Any adjustments from an audit performed by the funding source would flow through the financial statements during the year of the audit as a change in accounting estimate.

Governmental Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes, and regulations by health care providers in recent years. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that **the District** is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations. However, assessment of our compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

NOTE 13 - COMMITMENTS:

The District is committed under various contracts at December 31, 2013 as follows:

Hospital construction	\$58,643,743
Professional services	11,809,540
Security	<u>343,567</u>
	<u>\$70,796,850</u>

NOTE 14 - SUBSEQUENT EVENTS:

The District is required to evaluate events or transactions that may occur after the statement of net position date for potential recognition or disclosure in the financial statements. **The District** performed such an evaluation through June 9, 2014, the date which the financial statements were available to be issued.

The District entered into a special services Cooperative Endeavor Agreement (the Agreement) with the Louisiana Children's Medical Center and Touro Infirmary, collectively referred to as LCMC. At all times during the term of the Agreement, LCMC shall provide comprehensive day-to-day administrative, professional, operational, revenue cycle, and financial management of the eighty (80) bed New Orleans East Hospital, which is scheduled to re-open in July, 2014.

The initial term of the Agreement commenced on April 1, 2014 and expires on June 30, 2029, unless sooner terminated or extended, as provided or permitted by the Agreement.

The District will pay LCMC a fee, as setforth in Schedule 3.1 of the Agreement, in exchange for LCMC's performance and delivery of LCMC's Operational Obligations.

PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS - DISTRICT A
(A Component Unit of the City of New Orleans)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

<u>FEDERAL GRANTOR/PROGRAM NAME</u>	<u>FEDERAL CFDA</u>	<u>ACTIVITY</u>
<u>U.S. Department of Housing and Urban Development</u>		
<u>Direct Awards</u>		
Section 242 - Mortgage Insurance for Hospitals	14.128	\$ 58,598,464
Subtotal - Direct Awards		<u>58,598,464</u>
<u>Passed - Through Awards</u>		
State of Louisiana and City of New Orleans:		
Disaster Community Development Block Grant	14.228	5,104,665
Disaster Community Development Block Grant	14.228	2,000,000
Disaster Community Development Block Grant - Program Income	14.228	126,580
Urban Development Action Grants - Grantee Advances	14.221	<u>864,440</u>
Subtotal - Awards from Pass-Through Entities		<u>8,095,685</u>
Total U.S. Department of Housing and Urban Development		<u>66,694,149</u>
<u>U.S. Department of Homeland Security</u>		
<u>Passed - Through Awards</u>		
State of Louisiana, Governor's Office of Homeland Security & Emergency Preparedness:		
FEMA Disaster Relief	97.036	<u>7,123,951</u>
Total U.S. Department of Homeland Security		<u>7,123,951</u>
Total Expenditures of Federal Awards		<u>\$ 73,818,100</u>

NOTE: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Parish Hospital Service District
For the Parish of Orleans – District A
(A Component Unit of the City of New Orleans)
New Orleans, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the **Parish Hospital Service District for the Parish of Orleans - District A (the District)**, a component unit of the City of New Orleans, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise **the District's** basic financial statements, and have issued our report thereon dated June 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **the District's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **the District's** internal control. Accordingly, we do not express an opinion on the effectiveness of **the District's** internal control.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(CONTINUED)

Internal Control Over Financial Reporting, Continued

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2013-01 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **the District's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(CONTINUED)

Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the District's Board, management, the City of New Orleans, the Legislative Auditor for the State of Louisiana and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

June 9, 2014



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Parish Hospital Service District
For the Parish of Orleans – District A
(A Component Unit of the City of New Orleans)
New Orleans, Louisiana

Report on Compliance for Each Major Federal Program

We have audited the **Parish Hospital Service District for the Parish of Orleans – District A's (the District)** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **the District's** major federal programs for the year ended December 31, 2013. **The District's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of **the District's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

(CONTINUED)

Auditors' Responsibility, Continued

reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **the District's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **the District's** compliance.

Opinion on Each Major Federal Program

In our opinion, **the District** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2103.

Report on Internal Control Over Compliance

Management of **the District** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **the District's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **the District's** internal control over compliance.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

(CONTINUED)

Report on Internal Control Over Compliance, Continued

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-02, that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. **The District's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

(CONTINUED)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information and use of **the District's** Board, management, the City of New Orleans, the Legislative Auditor for the State of Louisiana and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

June 9, 2014

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Section I – Summary of Independent Auditors' Results

1. Type of report issued on the financial statements: **Unmodified.**
2. Did the audit disclose any material weaknesses in internal control over financial reporting? **No.**
3. Did the audit disclose any significant deficiencies in internal control over financial reporting that are not considered to be material weaknesses? **Yes.**
4. Did the audit disclose any non-compliance which is material to the financial statements? **No.**
5. Did the audit disclose any material weaknesses in internal control over major Federal programs? **No.**
6. Did the audit disclose any significant deficiencies in internal control over major programs that are not considered to be material weaknesses? **Yes.**
7. Type of report issued on compliance for major programs: **Unmodified.**
8. Did the audit disclose any audit findings required to be reported in accordance with OMB Circular A-133, Section .510(a)? **No.**
9. Was a management letter issued? **No.**

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Section I – Summary of Independent Auditors’ Results, Continued

10. Identification of Major Programs:

United States Department of Housing and Urban Development
 Section 242 – Mortgage Insurance for Hospitals - CFDA No. 14.128
 Disaster Community Development Block Grant - CFDA No. 14.228
 Urban Development Action Grants - CFDA No. 14.221

United States Department of Homeland Security
 FEMA Disaster Relief - CFDA No. 97.036

11. Dollar threshold used to distinguish between Type A and Type B Programs: **\$300,000**

12. Is the auditee a “low-risk” auditee, as defined by OMB Circular A-133? **No.**

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Section II - Financial Statement Findings

2013-01 - Salaries and Wages

Criteria

Management must establish internal control objectives for the accuracy of financial statements and the validity of transactions in order to effectively assess areas of potential risk.

Condition

Based on our testwork of salary and wage transactions, we noted the following:

- In forty (40) recalculated salary and wage transactions, twelve (12) gross payrolls were incorrectly calculated due to worked overtime hours coupled along with working shift differentials and/or holiday hours within respective overtime weeks. The incorrect overtime payrolls were not calculated in accordance with the requirements of the U.S. Department of Labor and the Fair Labor Standards Act for an employee receiving shift differentials and/or holiday pay for hours worked over 40 hours in a work week.
- In forty (40) tested payrolls, five (5) payrolls were incorrectly calculated due to erroneous reporting of shift differential and/or regular hours worked.
- Holiday pay was incorrectly calculated for nine (9) of eleven (11) eligible employees, who worked the July 4, 2013 holiday.

Our test of salary and wage transactions resulted in a net amount of \$958 in underpaid employees' wages.

Effect

Incorrect gross salaries and wages in 2013 were calculated, as described above, which we determined not to be material to the financial statements.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Section II - Financial Statement Findings, Continued

2013-01 - Salaries and Wages, Continued

Cause

The payroll processing and review function lacked adequate internal controls to ensure payrolls were properly calculated.

Recommendation

We recommend that **the District** update its current payroll processing procedures to ensure that all payrolls are calculated based on the approved timesheet hours worked and that the calculations of overtime pay, particularly when shift differential and/or holiday hours are worked, are performed in accordance with the requirements of the U.S. Department of Labor and the Fair Labor Standard Act.

Management's Response

The District's management agrees with the auditors' findings and recommendations. In January 2014, **the District** performed an internal payroll examination and determined that overtime payments to employees receiving a shift differential were not calculated in accordance with the requirements of the U. S. Department of Labor and the Fair Labor Standard Act. Non-exempt employees must be paid at least time-and-one-half their "regular rate" of pay for all hours worked over 40 in a workweek. The "regular rate" includes an employee's hourly rate plus the value of some other types of compensation such as bonuses and shift differentials. **The District** paid non-exempt employees the regular rate plus time and one-half only and did not consider shift differentials from the period July, 2011 through January, 2014. **The District** immediately informed the Board of Directors and, on April 15, 2014 implemented a plan to review all payrolls during the above stated period. **The District** engaged an independent Certified Public Accountant to complete the payroll review. Results of the payroll review will yield payments due to and/or recover amounts due from employees. The anticipated date of completion of the payroll agreed upon procedure engagement is August 1, 2014.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Section II – Financial Statement Findings, Continued

2013-01 - Salaries and Wage, Continued

Management's Response, Continued

The District has further strengthened its internal control environment by assigning internal responsibility for the review and approval of payroll processing to the Finance/Accounting Department. From January, 2014 through July, 2014, **the District's** payroll is processed by Paychex HR Solutions and reviewed and approved by **the District's** Finance/Accounting Department.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Section III - Federal Award Findings and Questioned Costs

2013-02 - Salaries and Wages

Disaster Community Development Block Grant Program
CFDA 14.228

Criteria

2 CFR part 215 require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition

Based on our testwork of salary and wage transactions, we noted the following:

- In forty (40) recalculated salary and wage transactions, twelve (12) gross payrolls were incorrectly calculated due to worked overtime hours coupled along with working shift differentials and/or holiday hours within respective overtime weeks. The incorrect overtime payrolls were not calculated in accordance with the requirements of the U.S. Department of Labor and the Fair Labor Standards Act for an employee receiving shift differentials and/or holiday pay for hours worked over 40 hours in a work week.
- In forty (40) tested payrolls, five (5) payrolls were incorrectly calculated due to erroneous reporting of shift differential and/or regular hours worked.
- Holiday pay was incorrectly calculated for nine (9) of eleven (11) eligible employees, who worked the July 4, 2013 holiday.

Our test of salary and wage transactions resulted in a net amount of \$958 in underpaid employees' wages.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Section III – Federal Award Findings and Questioned Costs, Continued

2013-02 - Salaries and Wages, Continued

Disaster Community Development Block Grant Program
CFDA 14.228

Questioned Costs

None

Effect

Incorrect gross salaries and wages in 2013 were calculated, as described above, which we determined not to be material to the financial statements.

Cause

The payroll processing and review function lacked adequate internal controls to ensure payrolls were properly calculated.

Recommendation

We recommend that **the District** update its current payroll processing procedures to ensure that all payrolls are calculated based on the approved timesheet hours worked and that the calculations of overtime pay, particularly when shift differential and/or holiday hours are worked, are performed in accordance with the requirements of the U.S. Department of Labor and the Fair Labor Standard Act.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Section III – Federal Award Findings and Questioned Costs, Continued

2013-02 - Salaries and Wages, Continued

Disaster Community Development Block Grant Program
CFDA 14.228

Management's Response

The District's management agrees with the auditors' findings and recommendations. In January 2014, **the District** performed an internal payroll examination and determined that overtime payments to employees receiving a shift differential were not calculated in accordance with the requirements of the U. S. Department of Labor and the Fair Labor Standard Act. Non-exempt employees must be paid at least time-and-one-half their "regular rate" of pay for all hours worked over 40 in a workweek. The "regular rate" includes an employee's hourly rate plus the value of some other types of compensation such as bonuses and shift differentials. **The District** paid non-exempt employees the regular rate plus time and one-half only and did not consider shift differentials from the period July, 2011 through January, 2014. **The District** immediately informed the Board of Directors and, on April 15, 2014 implemented a plan to review all payrolls during the above stated period. **The District** engaged an independent Certified Public Accountant to complete the payroll review. Results of the payroll review will yield payments due to and/or recover amounts due from employees. The anticipated date of completion of the payroll agreed upon procedure engagement is August 1, 2014.

The District has further strengthened its internal control environment by assigning internal responsibility for the review and approval of payroll processing to the Finance/Accounting Department. From January, 2014 through July, 2014, **the District's** payroll is processed by Paychex HR Solutions and reviewed and approved by **the District's** Finance/Accounting Department.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)
SCHEDULE OF PRIOR AUDIT FINDINGS**

Section I - Financial Statement Findings

2012-01 - Payroll Review and Approval

We recommended that **the District** review its current procedures and update the procedures to ensure that grant expenses are requested for only budgeted and allowable grant expenses. Also, we recommend that each payroll is clearly documented as being properly reviewed and approved.

Current Status

Resolved

Section II - Federal Award Findings and Questioned Costs

2012-02 - Unallowed Costs

Disaster Community Development Block Grant Program
CFDA 14.228

We recommended that **the District** review its current procedures and update the procedures to ensure that grant expenses are requested for only budgeted and allowable grant expenses. Also, we recommend that each payroll is clearly documented as being properly reviewed and approved.

Current Status

Resolved

Section III - Management Letter

No comments were reported.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A
(A Component Unit of the City of New Orleans)**

EXIT CONFERENCE

Meetings and discussions were held with representatives of **the District** to discuss the audit report. Those participated in those discussions are noted below.

**PARISH HOSPITAL SERVICE DISTRICT
FOR THE PARISH OF ORLEANS – DISTRICT A**

Mr. Ronnie V. Burns, Sr.	-- Chairman, Board of Directors
Mr. Max Owens, MBA, FHFMA, FACHE	-- Chief Financial Officer
Ms. Tiffany Jackson-Lawson	-- Controller

BRUNO & TERVALON LLP, CERTIFIED PUBLIC ACCOUNTANTS

Mr. Larry Jones, CPA	-- Director
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